



# World Bank Guarantee Products: IDA Partial Risk Guarantee (PRG)

World Bank Guarantees catalyze private financial flows to developing countries by mitigating critical government performance risks that the private financiers are reluctant to assume. Guarantees cover private debt against a government's (or government entity's) failure to meet specific obligations to a private or a public project.

## Introduction

**Partial Risk Guarantees (PRGs)** cover private lenders, or investors through shareholder loans, against the risk of a government (or government-owned entity) failing to perform its contractual obligations with respect to a private project.

International Development Association (IDA) PRGs are available for all countries eligible for IDA credits<sup>1</sup>.

## Main Features of IDA PRGs

**Eligible projects:** Projects with private participation dependent on certain government contractual undertaking, such as: Build-Operate-Transfer (BOT) and concession projects; Public-Private Partnership (PPP) projects; privatizations. The projects can be both greenfield or existing projects.

**Eligible debt:** PRGs can be used for any commercial debt instruments (loans, bonds) provided by any private institution<sup>2</sup>, including debt provided by sponsors in the form of shareholder loans. PRGs can cover both foreign currency and local currency debt.

**Risk coverage:** PRGs can cover a range of sovereign or parastatal risks, subject to specific obligations contractually agreed to by the government for a specific project. The types of risks covered may vary, including:

- currency inconvertibility/ non-transferability;

- political force majeure risks such as expropriation; war and civil disturbance; material adverse government action;
- government (or government entity) contractual payment obligations (e.g., periodic or termination payments; agreed subsidy payments; minimum revenue guarantees);
- regulatory risk; change of law and regulations; negation or cancellation of license and approval; non-allowance for agreed tariff adjustment formula or regime;
- contractual performance of public counterparties (e.g., state-owned entities under an off-take agreement, an input supply agreement);
- frustration of arbitration; and
- certain uninsurable force majeure events.

**Coverage amount:** PRGs typically cover outstanding principal and accrued interest of a debt tranche in full<sup>3</sup>. *Payment is made only if the debt service default is caused by risks specified under the guarantee.*

**Guarantee term:** PRGs typically cover extended maturities necessary to make the project financially viable. IDA PRGs are “non-accelerable” in that IDA makes payments only according to the original debt service schedule under the guarantee even if such debt is accelerated upon default.

**Fees:** Currently the following fees are payable by private project sponsors (or the project company) to the World Bank.

- **Initiation Fee:** one-time fee of 0.15% on the amount of the guarantee or a minimum of US\$100,000;
- **Processing Fee:** one-time fee of up to 0.5% on the amount of the guarantee, to

<sup>1</sup> In the case of “enclave projects” which earn foreign-exchange revenues (e.g., cross-border gas and power export projects), IBRD Enclave PRGs are offered.

<sup>2</sup> “Private” institutions include any publicly owned autonomous institutions that are established and operate under commercial law for the purpose of pursuing profit. The World Bank does not provide guarantees for the benefit of other multilateral or bilateral institutions.

<sup>3</sup> It is normally expected that PRG covers only part of total debt required for the project.

cover the cost of out-of-pocket expenses;

- **Guarantee Fee:** 0.75% per annum on the disbursed and outstanding guarantee amount<sup>4</sup>.

## Required Documentation

IDA will draft and enter into the following documentation:

**Guarantee Agreement** between IDA and the guarantee beneficiaries (lenders), which embodies terms and condition of the PRG.

**Project Agreement** between IDA and the project company, which contains undertaking to IDA with respect to consent requirements for changes to project agreements, compliance with World Bank safeguard policies, etc.

**Indemnity Agreement** between a member country (the host government) and IDA, whereby the government will indemnify IDA in the event IDA makes payments under the PRG. *It should be noted that the provision of indemnity per se will NOT increase government's contingent liabilities, as the PRG only backstops government's contractual obligations provided to the project in question.*

## Application and Approval Process

### **Identification of guarantee prospects:**

Projects may be identified through sector discussion between the World Bank and the government. Alternatively, transaction advisors for the government and/or interested project sponsors/lenders may initially approach the Bank. The project needs to be in compliance with Bank's country assistance strategy (CAS)<sup>5</sup>.

### **Guarantee request from the government:**

Upon the receipt of a request for a PRG from the government, the World Bank will

initiate its internal project processing. For projects that are being bid out, the Bank may offer an indicative PRG term sheet through the government to all the bidders as an option.

### **World Bank's due diligence and approval:**

Upon the selection of project sponsors by the government, the World Bank appraises the project and conducts a corporate review to ensure Bank's standard technical, environmental, economic, financial criteria are met. Once the project documents are finalized and commercial terms of the transaction are substantially negotiated, the Bank will obtain approval from its Board of Executive Directors for the proposed PRG.

### **Example of IDA Partial Risk Guarantee: Vietnam – Phu My 2-2 Power Project (2002)**

This 715 MW gas-fired power project is implemented under a *BOT Contract* with the Government of Vietnam (GOV); and sells power to Electricity of Vietnam (EVN), a state-owned power utility, under a 20-year *Power Purchase Agreement* (PPA). It was developed along with the development of indigenous gas resources and gas is supplied by PetroVietnam, a state-owned oil and gas company under a 20-year *Gas Sales Agreement*. A *Water Supply Agreement* (WSA) and a *Land Lease Agreement* (LLA) are with provincial entities. The GOV, under the *Government Guarantee*, guarantees due and punctual performance of Vietnamese contractual counter-parties and ensures foreign exchange convertibility and transferability.

The IDA assisted the GOV in the development of the project as a first competitively-bid BOT infrastructure project by financing the GOV's preparation of a project including bidding documents and offered the IDA guarantee up to \$75 million to all the bidders covering GOV undertakings to enhance the bankability. The GOV received competitive bid proposals from strong international consortia. Upon the request for the PRG from the winning consortium of EdF of France and TEPCO and Sumitomo Corp. of Japan, the World Bank approved the PRG provision in 2002. The sponsors confirmed the project would have unlikely gone ahead without World Bank support because of the private sector perception of political risks involved in the project in a non-investment grade country which had realized few privately-participated infrastructure projects in the past.

<sup>4</sup> Standby Fee, which is assessed for the committed but undisbursed guarantee amount, is currently 0% per annum. The World Bank reviews the IDA fees periodically and these fee levels may change in the future. Fee levels for the signed guarantee will remain constant throughout the term.

<sup>5</sup> In order to provide an incentive to the government for the use of guarantees, only 25% of the guarantee amount is counted against World Bank's CAS envelope for each country.

For more information on the World Bank Guarantees, please refer to the web site: [www.worldbank.org/guarantees](http://www.worldbank.org/guarantees)